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follows: Disputes affecting 31.60 per cent. of the working people involved resulted in their favor, 30.40 per cent. in favor of employers, 35.65 per cent. were compromised, and 2.35 per cent. remained indefinite or unsettled. Various agencies were employed for settlements, 16 cases by arbitration, 13 by conciliation, 316 by direct arrangement or negotiation between the parties or their representatives, 40 by returning to work on employers' terms without negotiations, 47 by replacement of workpeople, 3 by closing of works, and 7 remained indefinite or unsettled.

The principal trades affected by disputes, their number and number of work-people affected, as well as duration of disputes, will be observed from the following summary table:

| Trades | Number of Disputes | Number of Working People Directly and Indirectly Affected | Aggregate Duration in Working Days |
|---|---|---|---|
| Building trades | 39 | 5,356 | 115,860 |
| Mining and quarrying | 168 | 208,526 | 2,550,047 |
| Metal, engineering and shipbuilding | 71 | 15,914 | 420,362 |
| Textile trades | 82 | 16,706 | 238,380 |
| Clothing trades | 23 | 2,790 | 54,044 |
| Transport | 14 | 1,590 | 10,027 |
| Miscellaneous | 41 | 3,679 | 84,133 |
| Employees of public authorities | 4 | 2,106 | 6,402 |
| Grand total | 442 | 256,667 | 3,479,255 |

J. M.

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*Trust Finance: A Study of the Genesis, Organization, and Management of Industrial Combinations.* By EDWARD SHERWOOD MEADE. New York: D. Appleton & Company, 1903. 8vo, pp. x + 387.

ALL who have read Dr. Meade's articles which appeared from time to time in economic journals will welcome the present volume, which is no mere reprint of the earlier essays, but a much more thorough discussion of trust finance. Descriptions of the conditions leading to the organization of the trusts, and an account of the methods by which they were formed and by which their securities were floated, furnish the historical background for a discussion of the financial policy which such corporations would most wisely follow, and for a criticism of the policy which was generally adopted. Of particular interest is the more extended examination of the United States Steel Corporation, which in

its subsequent history has coincided well with the author's gloomy prognostications. Dr. Meade has been a pioneer in an untrodden field and in his researches has shown singular originality and acumen. The work is, however, at times open to criticism on the ground of too sweeping generalizations, and occasionally even for misunderstanding of technical facts. Doubtless much of this is due to the very circumstance that the author is a pioneer, and therefore the problems have not yet been surveyed from all sides and tested by prolonged examination.

Greatest emphasis is laid on the discussion of what the author calls the surplus reserve, which is defined as "that portion of the productive assets which represents the investment of the amount reserved out of profits for the purposes of the corporation before dividends are distributed to the stockholders." While the author has undoubtedly made a strong point in showing the desirability of accumulating such a surplus, it is to be regretted that in the discussion there is somewhat of contradiction and confusion. Thus on one page it is said that the Pennsylvania saves half its profits (p. 169), but the figures given elsewhere show that the net profits of this road are 15 million dollars and its dividends 12 millions (p. 162). The author is also vague in his use of the term "profits" for it is defined (p. 157) as the residue after payment of all expenses, including interest on funded debt, yet repeatedly the profits of the steel Corporation are given so as to include interest as well as net profits. This confusion leads to serious error in making comparison between railroads with their large interest charges and industrials almost free from bonded debt.

As an example of hasty generalization may be given the statement:

> A new corporation representing a new form of enterprise whose shares are to be thrown open to public subscription must in the nature of things be overcapitalized if its flotation is to succeed (p. 314).

One wonders what are the things whose nature is considered. What is to be said of the first great stock speculation in the United States, that in connection with the Bank of the United States, or of the English speculative mania in railroads in 1845–46, in both of which cases wild speculation occurred in new stocks selling at par or at a premium?

In the specific discussion of the United States Steel Corporation found in chap. xvi the author makes a most remarkable statement. Readers of the article as it appeared in the *Quarterly Journal of Economics* remember the severe criticism passed on the corporation for having issued so much stock, with dividend requirements so large that

it is impossible to pay the dividends and at the same time accumulate any considerable reserve. Consequently the stock has depreciated and become highly speculative. Dr. Meade suggests what would have been a conservative method of financing the corporation, saying:

Suppose, for example, that the original capital of the United States Corporation had been limited to the amount of money which has been actually invested in the various properties of that corporation, and which has been estimated at from $150,000,000 to $500,000,000. Let the latter figure be chosen as the amount of the original investment, and suppose that the capital had been divided into $250,000,000 of 7 per cent. cumulative preferred stock and $250,000,000 common stock. After such a readjustment, the value of the preferred stock could be considered safe and it would probably sell around 150. The common stock, which now falters and staggers around 35, would, on this basis of capitalization, show earnings of more than $100,000,000, out of which a 25 per cent. dividend could safely be paid out of the profits of the current year, while $50,000,000 could be applied to the various improvements for which the directors are now trying to borrow that amount. Under these circumstances, on the basis of the Standard Oil stock, which represents a conservative capitalization, United States Steel common would sell around 400. (P, 301.)

To compare the two schemes the following table is submitted:

ACTUAL CAPITALIZATION OF THE UNITED STATES STEEL CORPORATION.[1]

| Stock | Par Value | Dividends | Price | Present Value |
|---|---|---|---|---|
| Preferred ........... | $510 million | $35.7 million | $82.5 | $420.7 million |
| Common ........... | 508 " | 20.3 " | 35.0 | 177.8 " |
| Total .......... | $1,018 million | $56.0 million | | $598.5 million |

PROPOSED CAPITALIZATION.

| Stock | Par Value | Dividends | Price | Present Value |
|---|---|---|---|---|
| Preferred........... | $250 million | $17.5 million | $100 | $250 million |
| Common ........... | 250 " | 62.5 " | 400 | 1,000 " |
| Total.......... | $500 million | $80.0 million | | $1,250 million |

[1] In the table above the bonds are not included. This is probably correct, for in this immediate discussion Dr. Meade makes no reference to bonds, and elsewhere he says: "So far we have seen no reason to doubt the expediency of these bond issues" (p. 267). Even after adding the bonds to the first table, the charges are raised to only $72 million and the market value to $717 million. The quotations given are, of course, those current at the date of the book, not those of today.

Dr. Meade would have us believe that while the dividend payments of 56 million dollars are so high as to endanger the future of the stock, and consequently reduce the value from 1,018 million to 600 million dollars, yet a mere juggling in certificates would enable the company to pay 80 million dollars, not only without injury, but with the market value of the stock raised to more than twice what it was then worth. It should be noted that the low price was not attributed to the smaller dividends, Dr. Meade's whole argument being that steel stocks were low because dividends were too high. Yet he claims that raising the dividends over 50 per cent. with no change in earnings would have no bad effect under the new arrangement. Is there not here an opportunity for some young Napoleon of finance to make a fortune? Could Dr. Meade not manage quietly to buy up the entire issue of steel stock, cancel half of it, and sell the remainder at an increase of 650 million dollars? The transaction would be even more interesting than that of the Cumæan Sibyl or the spice-burning performances of the East India Company.

Some other instances where careless or hurried work has marred Dr. Meade's book may briefly be cited. The investment of sinking funds in securities has been condemned in the following words:

> This sinking fund is of no benefit to the stockholder other than to ultimately decrease the liabilities of the company. During a long period, however, the corporation is under the necessity of paying interest, and at the same time contributing to the sinking fund. The result of this double contribution is, for perhaps twenty-five years, to compel the stockholder to pay double for the money borrowed. The amount available for dividends is therefore reduced and the stockholder suffers. (P. 241.)

There is certainly no double payment unless any payment of both principal and interest is a double payment. Furthermore the passage just quoted contradicts a previous one: "The purchase of securities for a sinking fund increases the income of the road by the amount of interest or dividends on those securities" (p. 161). It is also inconsistent with the recommendation that it is particularly desirable to invest the surplus reserve in high-grade bonds (p. 170). In general, although here again inconsistent passages might be cited, there seems to be a disregard of the fact that a sinking fund is nothing whatever but a surplus reserve, and must inevitably so appear on the balance sheet when the bonds are paid.

The estimate of the yield from bonds involves a gross error, for the figures are obtained by dividing the rate of interest by the price

paid for the bonds. This would give correct results in case of a perpetual annuity and is applied to stock, but is obviously wrong for bonds.

The claim is made that the distinctly high-priced stocks net the investor more than those which sell nearer par, but in the table given on p. 360 in each year the stock which happened to be selling at the highest premium was the one paying the lowest rate to the investor. And even more briefly, a debenture bond is not the same thing as an income bond (p. 266); the maintenance of a depreciation fund is not a source of savings (p. 91); the sale to stockholders at par of additional stock worth a premium is in no sense a case of stock-watering. (P. 303.)

With these criticisms or suggestions, it is a pleasure to speak of the evidences of original work, of the keen analyses of financial operations, of the admirable conclusions as to the bases of trust success, of the unusually clear summaries of arguments, and of the sprightliness of literary style which are characteristic of Dr. Meade's timely contribution to economic literature.

HENRY RAND HATFIELD.